



Department of Finance
Pension Investment Committee
2014 Activity Report

June 2015

Table of Contents

MESSAGE FROM THE CHAIR	1
1.0 Overview	2
2.0 Mandate	3
3.0 Values	3
4.0 Primary Clients and Stakeholders	3
5.0 Vision	3
6.0 Key Statistics	3
7.0 Activities	5
7.1 Discount rate	5
7.2 Asset mix	5
7.3 Annual rates of return	5
7.4 2014 Performance	6
8.0 2014 Objectives and Results	8
9.0 2015 Objective, Measure and Indicators	9
10.0 Opportunities and Challenges	10
11.0 Financial Statements	11
12.0 Contact Information	46

**PENSION INVESTMENT COMMITTEE
OF THE
PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED
PENSION FUND**

P.O. Box 8700
St. John's, NL
A1B 4J6

Honourable Ross Wiseman
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL A1B 4J6

Dear Minister Wiseman:

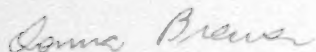
As the Chair of the Pension Investment Committee (PIC), I am pleased to submit the 2014 Activity Report for the Committee. This Report was prepared under the direction of the PIC and the PIC is accountable for the results contained herein. This Report covers the first year of the Committee's 2014- 2016 Activity Plan.

The PIC of the Province of Newfoundland and Labrador Pooled Pension Fund (the Fund) has been overseeing the management of the Fund since its inception in 1981. Throughout that period, the performance of the Fund has contributed to slowing the growth in the unfunded liabilities of the five participating pension plans sponsored by government. As of December 31, 2014, the unfunded liability was \$4.6 billion.

Strong returns across Canadian and Global equity markets and rebounds in the Canadian bond markets resulted in a favourable year for the Fund in 2014. The 12.0% rate of return earned by the Fund was slightly higher than the 11.5% benchmark rate of return for the Fund, which had a positive impact on the long-term investment goals established by the PIC.

Prudent management of the Fund by the PIC is consistent with the strategic direction of Government to help improve the funded status of the pension plans sponsored by the Province.

Sincerely,



Donna Brewer
Chair of the Pension Investment Committee
of the Province of Newfoundland and Labrador Pooled Pension Fund

1.0 Overview

The Pension Investment Committee (PIC) advises the Minister of Finance, as Trustee, on the operation and the investment of the Province of Newfoundland and Labrador Pooled Pension Fund (the Fund). The Fund was established to finance benefits under the various Government sponsored pension plans, including the Public Service Pension Plan, the Teachers' Pension Plan, the Uniformed Services Pension Plan, the Members of the House of Assembly Pension Plan and the Provincial Court Judges' Pension Plan.

The PIC has 14 members comprised of representatives from Government and the plans' stakeholders, including employee groups and pensioners, with the Deputy Minister of Finance as the Chair. Responsibilities of the PIC include the review of all the financial activities of the Fund; the development, review and implementation of Fund objectives and investment strategies; and the recommendations for the appointment of investment consultants, a custodian and investment managers as required.

The PIC also oversees the operations of Newvest Realty Corporation (Newvest). Newvest was established solely to facilitate the Fund's investment in real estate. The activities of Newvest are included as part of the activities of the PIC.

The table below lists the members of the PIC as of December 31, 2014.

<i>Government Representatives:</i>	
Donna Brewer, Chairperson	Deputy Minister of Finance
Denise Hanrahan, Vice-Chair	Assistant Deputy Minister, Financial Planning and Benefits Administration, Department of Finance
Ann Marie Miller	Comptroller General
Joan Morris	Assistant Deputy Minister, Corporate Services, Department of Education
Maureen McCarthy	Director, Pension Administration
Paul Myrden	Director, Debt Management
Natasha Trainor, Secretary	Manager, Pension Investments
<i>Employee/Pensioner Representatives:</i>	
Bert Blundon	Newfoundland and Labrador Association of Public and Private Employees
Debbie Forward	Newfoundland and Labrador Nurses' Union
Don Ash	Newfoundland and Labrador Teachers' Association
Vacant	Association of Allied Health Professionals
Doug Laing	Newfoundland and Labrador Public Service Pensioners' Association
Dawn Learning	Canadian Union of Public Employees
<i>Non-Government Representative:</i>	
Vacant	Private Sector Representative

2.0 Mandate

Pursuant to section 14 of the *Pensions Funding Act*, the Lieutenant Governor in Council established the Pension Investment Committee to administer and manage the Newfoundland and Labrador Pooled Pension Fund. This mandate is delivered by completing the following activities:

- Review of all the financial activities of the Fund
- Develop, review and implement Fund objectives and investment strategies
- Recommend appointments of investment consultants, a custodian and investment managers, as required

3.0 Values

Ensuring the assets of the Newfoundland and Labrador Pooled Pension Fund are invested in a prudent manner within acceptable risk tolerances is the guiding principle for the PIC. As such, the PIC has established the following values to help ensure this priority is realized:

Inclusion: Each member of the PIC acknowledges each others' views and perspectives and has the right/opportunity to express their own.

Independence: Each member, while representing the interests of diverse stakeholders, recognizes that the decisions of the PIC are in the best interests of all stakeholders.

4.0 Primary Clients and Stakeholders

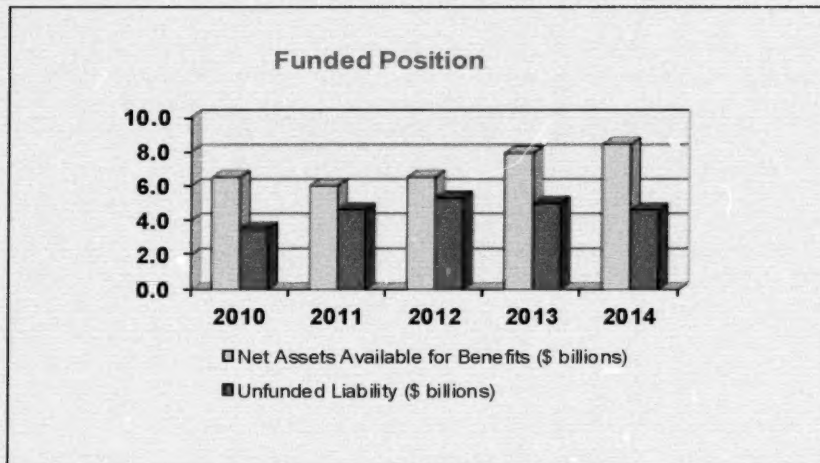
The primary clients and stakeholders for the PIC include both the active and retired members of the various pension plans and various employers who participate in the plans.

5.0 Vision

The vision of the PIC is for all government sponsored plans to be fully funded.

6.0 Key Statistics

As of December 31, 2014, total Fund assets were \$8.4 billion and the total unfunded liability was \$4.6 billion. This compares to assets of \$7.9 billion and an unfunded liability of \$5.0 billion as of December 31, 2013.



As detailed in the following table, Fund participation was close to 69,000 members as of December 31, 2014.

Fund Participation as of December 31, 2014	
Active Members	35,104
Deferred Members	5,928
Pensioners	27,933
Total	68,965

As detailed in the following table, payments made from the Fund exceeded contributions to the Fund for the year ended December 31, 2014.

2014 Contributions and Payments	
Contributions:	
Contributions from Active Members	\$188,290,000
Regular Employer Contributions	\$164,919,000
Total Contributions:	\$353,209,000
Payments:	
Pension Benefit Payments	\$625,283,000
Refunds to Members	\$53,631,000
Administrative Expenses	\$25,064,000
Total Payments:	\$703,978,000

7.0 Activities

The Fund was established as a vehicle to invest employee and employer pension plan contributions in the capital markets with a long term goal to achieve investment returns on those contributions sufficient to meet the cost of the pension obligations as they become due. As the obligations of the participating pension plans are not fully funded, any excess returns achieved in the portfolio will slow the growth in the unfunded portion.

7.1 Discount rate

In evaluating the long term pension obligations of the Province at December 31, 2012 (the date of the most recent valuations), the Province's actuary used a long term annual interest rate of 6.75% to discount the obligations. Similarly, in determining the cash flow requirements of the plans over the valuation period, the actuary assumes that the assets will achieve a similar rate of return. The PIC is mandated to develop and implement an investment strategy with the primary objective of securing the promised pension benefits at a manageable cost to both government and employees. The long term average targeted rate of return is currently 6.75%.

7.2 Asset mix

The PIC has implemented an asset mix policy and selected investment managers with a view to achieving annual investment returns that exceed the annual returns earned by the relevant capital market indices. It is hoped that this investment strategy will result in a long term return that exceeds the actuarial discount rate.

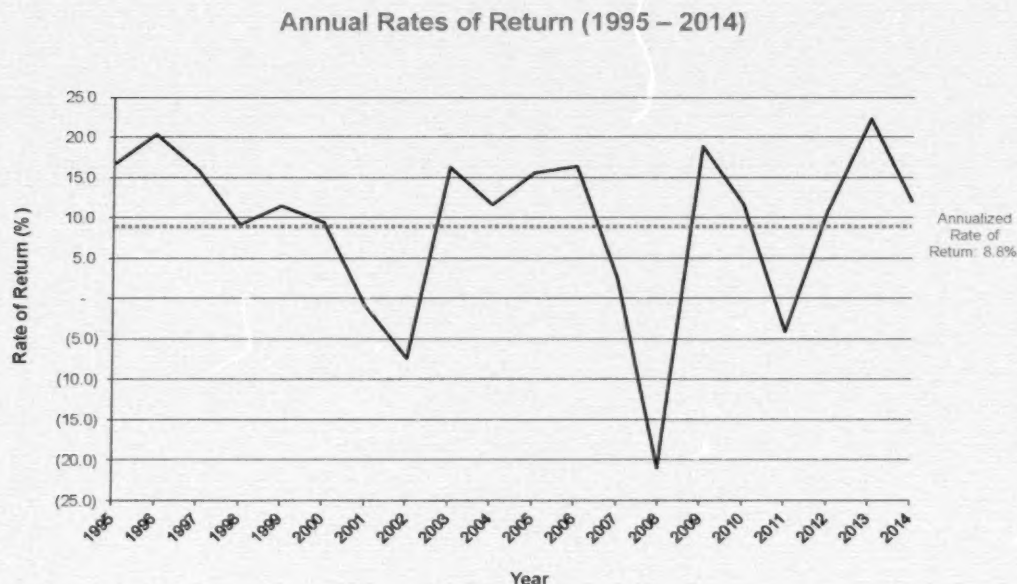
The table below outlines the Asset Mix as of December 31, 2014.

Asset Mix	Actual (%)		Policy (%)	
	2014	2013	Target	Range
Canadian Equities	34	35	35	30-40
Global Equities	44	43	40	35-45
Real Estate	3	3	5	2-6
Canadian Bonds	19	19	20	15-25

7.3 Annual rates of return

The asset mix strategy as of December 31, 2014 of 75% equities, 20% fixed income and 5% real estate was adopted based on the plans' going concern funded ratio and the need to manage the growth of the unfunded liabilities. To further diversify the impact of investment volatility and enhance expected returns, specific investments are allocated among broad asset classes. While returns in excess of the discount rate will not be achievable every year, the Fund's annualized rate of return over the past 20 years is 8.8%. This is higher than both the policy benchmark return of 7.5% and the discount rate of 6.75% used in the 2012 actuarial valuations. The Fund's annualized return over 10 years is 7.7% versus the policy benchmark of 6.9%, and over 5 years

the Fund returned 10.2% versus the policy benchmark return of 9.2%. The following graph illustrates the variability in annual rates of return over the past 20 years.



7.4 2014 Performance

Strong returns across equity markets and increased returns in bond markets resulted in a favourable year for the Fund in 2014. The Fund's overall return of 12.0% was 0.5% higher than the benchmark return of 11.5%. The Fund outperformance versus the benchmark indices was observed in both the Canadian Equities and Global Equities asset classes and was a result of strong investment performance by the investment managers selected by the PIC.

The global equity category posted a positive return of 14.2% for the year, marginally ahead of its market index return of 14.1%. The Canadian equity category posted a return of 11.8%, which was 1.2% higher than its benchmark index. While the Canadian bond category posted an 8.5% return for the year, it was slightly behind its benchmark index by 0.3%. The Real Estate category returned 3.9% for the year, lagging its market index by 1.7%.

This strong investment performance resulted in the slowing of the growth in the unfunded liability in 2014. The unfunded liability decreased from \$5.0 billion at December 31, 2013 to \$4.6 billion at December 31, 2014.

The Fund's annual investment results for the five years ending December 31, 2010 to 2014 are presented in the following table.

<i>Investment Performance</i>	<i>Annual Returns (%)</i>				
	2014	2013	2012	2011	2010
Total Fund	12.0	22.4	10.8	-4.2	11.6
<i>Policy Benchmark Return*</i>	11.5	16.9	9.5	-1.7	10.4
Canadian Equities	11.8	22.7	9.3	-11.3	16.0
<i>S&P/TSX Composite Index</i>	10.6	13.0	7.2	-8.7	17.6
Global Equities	14.2	33.9	14.9	-	-
<i>MSCI All Country World Index</i>	14.1	31.7	14.2	-	-
U.S. Equity	-	-	-	1.6	11.5
<i>S&P 500 Index</i>	-	-	-	4.6	9.1
Non-North American Equity	-	-	-	-11.5	7.4
<i>MSCI EAFE Index</i>	-	-	-	-9.6	2.6
Real Estate (Newvest)	3.9	9.4	15.6	11.8	10.2
<i>ICREIM/IPD Cdn Property Index</i>	5.6	9.2	10.9	10.6	7.5
Canadian Bonds	8.5	-0.8	4.1	8.7	7.4
<i>DEX Bond Universe Index</i>	8.8	-1.2	3.6	9.7	6.7

*Policy Benchmark Return is defined as the rate of return which would have been earned had the fund been invested in securities identical to the various indices.

8.0 2014 Objectives and Results

Issue: Responsible Management of the Pension Fund

Part of the PIC mandate is to develop an active investment strategy with the primary long-term goal of achieving investment returns that exceed passive investment in various sectors of financial markets. This strategy is implemented through the selection of managers whose investment style is designed to add value over the relevant market indices over a four year time horizon.

In its 2014-16 Activity Plan, the PIC developed an annual objective focused on the responsible management of the fund, with the aim of earning annual returns in excess of the market index for the relevant category of investments. The results are as follows:

Objective: By December 31, 2014 the PIC will have prudently managed the Newfoundland and Labrador Pooled Pension Fund.

Measure: Prudent management of the fund

Indicators and Summary of Results:

- *Developed, reviewed and/or implemented Fund objectives and investment strategies with a view of earning annual returns in excess of the market index for the relevant category of investments (i.e. S&P TSX Composite Index; MSCI ACWI Index; DEX Bond Universe Index and the ICREIM/IPD Canadian Property Index)*

The objectives of the Fund are long term in nature and are revisited upon the completion of the triennial actuarial valuations of the plans participating in the Fund. The next actuarial valuation of the two largest plans (the Public Service Pension Plan and the Teachers' Pension Plan) are scheduled for 2015, at which time the Committee will determine if new Fund objectives are required. Until then, the Committee continues to review the Fund objectives and investment strategies to ensure the Fund continues to earn annual returns in excess of the market index for the relevant investment categories. As detailed in the table on page 7, during 2014, Fund returns exceeded those of the market indices in two of four categories of asset classes in which the Fund is invested. The Total Fund performance of 12.0% exceeded the Policy Benchmark Return by 0.5%.

- *Reviewed the financial activities of the Fund and advised the responsible Minister as appropriate*

The Pension Reform Initiative outlined in Section 10 required extensive analysis of the pension fund, including the assets and the liabilities for each plan, to determine the appropriate long term asset mix required to achieve the objective of ensuring the sustainability of the plans. A specific asset/liability study was therefore not required as it was included in the financial analysis completed under the Pension Reform Initiative.

- *Recommended appointments of investment consultants, a custodian and investment managers, as required*

At the September 26, 2013 meeting of the PIC, the Committee decided to terminate one of the existing Canadian equity investment managers and restructure the Canadian equity portfolio to include a new growth manager, a defensive manager and a passive manager. After a comprehensive investment manager search, the Committee recommended the appointment of three new investment managers. Investment management agreements were signed with these managers effective January, 2014.

9.0 2015 Objective, Measure and Indicators

As noted in the 2014-16 Activity Plan, the 2015 annual objective for the PIC is as follows:

Objective: By December 31, 2015 the PIC will have prudently managed the Newfoundland and Labrador Pooled Pension Fund.

Measure: Prudent management of the fund

Indicators:

- Developed, reviewed and/or implemented Fund objectives and investment strategies with a view of earning annual returns in excess of the market index for the relevant category of investments (i.e. S&P TSX Composite Index; MSCI ACWI Index; DEX Bond Universe Index and the ICREIM/IPD Canadian Property Index)
- Reviewed the financial activities of the Fund and advised the responsible Minister as appropriate
- Recommended appointments of investment consultants, a custodian and investment managers, as required

10.0 Opportunities and Challenges

On September 2, 2014, the Provincial Government and the five largest unions (AAHP, CUFE, IBEW, NAPE AND NLNU) representing employees of the Public Service Pension Plan (PSPP) signed an agreement that will ensure the sustainability of the PSPP. This agreement includes joint management of the PSPP, an equal sharing between Government and plan members in any future surpluses and deficits, the issuance by Government of a \$2.685 billion promissory note to address the unfunded liability of the plan and plan changes designed to have a positive impact on the Fund. The Pension Reform Agreement also includes the establishment of the Public Service Pension Plan Corporation as the administrator of the PSPP and Trustee of the PSPP Fund. In accordance with the agreement, PSPP assets were carved out of the Newfoundland and Labrador Pooled Pension Fund (NLPPF) as of March 31, 2015.

Continuing with its pension reform initiative, Government entered into an agreement with the Newfoundland and Labrador Teachers' Association on June 15, 2015 for the Teachers' Pension Plan (TPP). Similar to the PSPP agreement, this agreement includes joint management of the TPP, an equal sharing between Government and plan members in any future surpluses and deficits, the issuance by Government of a \$1.862 billion promissory note to address the unfunded liability of the plan and plan changes designed to have a positive impact on the Fund. While most benefit changes and contribution rate increases will be effective September 1, 2015, the joint trusteeship will be established in the first half of fiscal 2016/17.

During 2015, the PIC will continue to oversee the management of the NLPPF, pursuant to its mandate. As noted above however, the Fund will no longer include assets of the Public Service Pension Plan. As of April 1, 2015, the Fund will only include the Teachers' Pension Plan, the Uniformed Services Pension Plan, the Members of the House of Assembly Pension Plan and the Provincial Court Judges' Pension Plan. The 2015 Annual Report of the Pensions Investment Committee will reflect these changes.

11.0 Financial Statements

Province of Newfoundland and Labrador Pooled Pension Fund

December 31, 2014



**AUDITOR
GENERAL**
of Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

To the Trustee
Province of Newfoundland and Labrador
Pooled Pension Fund
St. John's, Newfoundland and Labrador

Report on the Financial Statements

I have audited the accompanying financial statements of the Province of Newfoundland and Labrador Pooled Pension Fund, which comprise the statement of financial position as at December 31, 2014, and the statements of changes in net assets available for benefits, and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

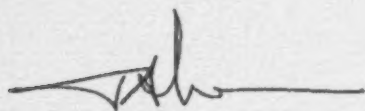
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent Auditor's Report (cont.)

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province of Newfoundland and Labrador Pooled Pension Fund as at December 31, 2014 and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

A handwritten signature in black ink, appearing to read 'T. Paddon', with a long horizontal line extending to the right.

TERRY PADDON, CPA, CA
Auditor General

St. John's, Newfoundland and Labrador
June 30, 2015

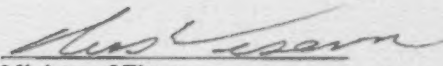
PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
STATEMENT OF FINANCIAL POSITION

As at December 31

	2014	2013
	(000's)	(000's)
ASSETS		
Investments (Note 2)		
Short-term notes and deposits	\$ 103,396	\$ 143,530
Bonds and debentures	1,558,536	1,457,530
Equities - Canadian	2,834,515	2,692,641
- Foreign	3,641,058	3,283,689
Real estate	249,842	234,922
	<u>8,387,347</u>	<u>7,812,312</u>
Receivables		
Employee contributions	6,665	6,146
Employer contributions	5,893	5,351
Accrued investment income	19,970	18,800
Accounts receivable	872	822
	<u>33,400</u>	<u>31,119</u>
Cash	22,349	20,883
	<u>8,443,096</u>	<u>7,864,314</u>
LIABILITIES		
Accounts payable and accrued liabilities	6,442	6,195
Refunds payable	7,379	3,404
Due to Province of Newfoundland and Labrador	1,352	1,755
	<u>15,173</u>	<u>11,354</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$ 8,427,923</u>	<u>\$ 7,852,960</u>
ACCRUED BENEFITS OBLIGATION AND DEFICIT		
Accrued benefits obligation	\$ 13,005,396	\$ 12,902,743
Deficit	(4,577,473)	(5,049,783)
ACCRUED BENEFITS OBLIGATION AND DEFICIT	<u>\$ 8,427,923</u>	<u>\$ 7,852,960</u>

See accompanying notes

Signed on behalf of the Fund:


Minister of Finance
and President of Treasury Board
Trustee

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
For the Year Ended December 31

2014

2013

	Public Service Pension Plan (000's)	Teachers' Pension Plan (000's)	Uniformed Services Pension Plan (000's)	Members of the House of Assembly Pension Plan (000's)	Provincial Court Judges' Pension Plan (000's)	Total (000's)	Total (000's)
Increase (decrease) in net assets from:							
Investments (Note 3)							
Investment income	\$ 151,401	\$ 85,566	\$ 5,273	\$ 583	\$ 194	\$ 243,017	\$ 199,262
Gain on sale of investments	407,691	230,414	14,200	1,571	524	654,400	376,618
Current period change in market value of investments	17,640	9,970	614	68	23	28,315	875,369
	576,732	325,950	20,087	2,222	741	925,732	1,451,249
Contributions							
Employee	134,484	48,531	4,514	467	294	188,290	187,311
Employer (Note 9)	115,765	44,202	4,331	407	214	164,919	164,722
Special payments (Note 9)	-	-	-	-	-	-	204,300
	826,981	418,683	28,932	3,096	1,249	1,278,941	2,007,582
Other changes in net assets							
Pension payments	(332,710)	(268,060)	(23,288)	(1,026)	(199)	(625,283)	(589,724)
Refund of contributions with interest	(47,918)	(5,314)	(320)	-	(79)	(53,631)	(44,605)
Administrative costs (Note 6)	(15,628)	(8,782)	(560)	(70)	(24)	(25,064)	(22,536)
	(396,256)	(282,156)	(24,168)	(1,096)	(302)	(703,978)	(656,865)
Total increase in net assets	430,725	136,527	4,764	2,000	947	574,963	1,350,717
Net assets available for benefits, beginning of period	4,824,912	2,828,323	175,802	17,845	6,078	7,852,960	6,502,243
Net assets available for benefits, end of period	\$ 5,255,637	\$ 2,964,850	\$ 180,566	\$ 19,845	\$ 7,025	\$ 8,427,923	\$ 7,852,960

See accompanying notes

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
STATEMENT OF CHANGES IN PENSION OBLIGATIONS
For the Year Ended December 31

2014

2013

	Public Service Pension Plan	Teachers' Pension Plan	Uniformed Services Pension Plan	Members of the House of Assembly Pension Plan	Provincial Court Judges' Pension Plan	Total	Total
	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)
Accrued benefits obligation at beginning of period	\$ 7,841,348	\$ 4,608,553	\$ 425,066	\$ 21,643	\$ 6,133	\$ 12,902,743	\$ 11,824,371
Increase (decrease) in accrued benefits obligation							
Amendments to plan	(68,620)	-	-	-	-	(68,620)	-
Interest on accrued benefits	525,573	304,906	28,209	1,413	396	860,497	791,269
Benefits accrued	270,473	90,528	9,307	901	476	371,685	351,393
Impact of changes in actuarial assumptions	(301,251)	(77,314)	(2,648)	(68)	-	(381,281)	530,229
Impact of experience gains and losses	-	-	-	(577)	(137)	(714)	39,810
Benefits paid	(380,628)	(273,374)	(23,608)	(1,026)	(278)	(678,914)	(634,329)
Total increase in accrued benefits obligation	45,547	44,746	11,260	643	457	102,653	1,078,372
Accrued benefits obligation at end of period	\$ 7,886,895	\$ 4,653,299	\$ 436,326	\$ 22,286	\$ 6,590	\$ 13,005,396	\$ 12,902,743

See accompanying notes

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Authority and description

The Province of Newfoundland and Labrador Pooled Pension Fund (the Fund) was created July 1, 1980 under the authority of the *Pensions Funding Act* (the *Act*) for the purpose of providing for the funding of pension plans sponsored by the Province. The affairs of the Fund are managed by the Minister of Finance, as Trustee of the Fund. Section 9 of the *Act* states that where there are insufficient assets to meet the obligations of the Fund, or the equity apportioned to a plan is insufficient to meet the obligations of the plan, the Minister shall pay out of the Consolidated Revenue Fund sufficient monies as may be necessary to cover the deficiency.

The Fund is a Crown entity of the Province of Newfoundland and Labrador and as such is not subject to Provincial or Federal income taxes.

The following pension plans participate in the Fund: Public Service Pension Plan, Teachers' Pension Plan, Uniformed Services Pension Plan, Members of the House of Assembly Pension Plan and the Provincial Court Judges' Pension Plan.

(a) Public Service Pension Plan

(i) General

The Plan is a contributory defined benefit pension plan covering full-time employees of the Government of the Province of Newfoundland and Labrador, the Legislature and various Crown corporations, agencies and commissions created by or under a statute of the Province.

The Plan is comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act* (Canada), and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act* (Canada) maximum benefit limits. These financial statements include only amounts that pertain to the Registered Plan. Amounts that pertain to the Supplementary Plan are included within the accounts of the Consolidated Revenue Fund.

(ii) Employee contributions

Employee contributions are equal to 8.6% of the Canada Pension Plan (CPP) basic exemption, plus 6.8% of the employee's salary between the CPP basic exemption and the Year's Maximum Pensionable Earnings (YMPE) under the CPP, plus 8.6% of the employee's salary in excess of the YMPE, up to a maximum allowed under the *Income Tax Act* (Canada). Amounts in excess of the maximum allowed are paid to the Supplementary Plan.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Authority and description (cont.)

(a) Public Service Pension Plan (cont.)

(iii) Accrued service pensions

A service pension is available from the Registered Plan based on the number of years of pensionable service times 2% of the member's best five years average salary. When a retired member reaches age 65, this pension is reduced by 0.6% of the member's best five years average salary up to average YMPE times years of pensionable service after April 1, 1967. The calculated amount shall not exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada).

Where the calculated amount does exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada), a vested member who is no longer an employee can receive a pension from the Supplementary Plan. The total pension received from both the Registered Plan and the Supplementary Plan equals the amount calculated based on the number of years of pensionable service times 2% of the member's best five years average salary.

Employees who have reached age 50 and have at least 30 years of service are permitted to retire with a 0.5% reduction in pension benefit for each month under age 55.

Employees who have reached age 55 and have 30 years of service may retire with an unreduced pension. Employees age 55 or greater with less than 30 years service and with age and service equal to 85 may retire with a pension reduced by 0.5% for each month under age 60.

Vested employees who have reached age 55 may retire with an actuarially reduced pension.

(iv) Disability pensions

A disability pension equal to the accrued service pension is available on permanent incapacity at any age with a minimum of five years pensionable service.

(v) Survivor pensions

A survivor pension of 60% of the member's accrued service pension is paid to the surviving principal beneficiary (and on the surviving principal beneficiary's death, to dependent children) following the death of a pensioner, a deferred pensioner or an employee with at least five years pensionable service.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Authority and description (cont.)

(a) Public Service Pension Plan (cont.)

(vi) Pre-retirement death benefits

Where an employee with at least five years pensionable service dies before receiving a pension and a survivor benefit is payable, the surviving principal beneficiary may elect to receive either the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the employee's pension entitlement.

Where an employee with at least five years pensionable service dies before receiving a pension and there is no surviving principal beneficiary the commuted value of the employee's pension entitlement is paid to the employee's estate.

(vii) Termination benefits

On termination of employment, an employee may elect to receive a refund of the employee's own contributions with interest or, if the employee has at least five years pensionable service, may elect to receive a deferred pension or commuted value.

(viii) Indexing

Effective October 1, 2002 and each October 1 thereafter the amount of a pension or survivor benefit paid to an individual who has reached the age of 65 will be adjusted by 60% of the Consumer Price Index for Canada for the previous calendar year as published by Statistics Canada, to a maximum of 1.2% of the annual pension or survivor benefit.

(b) Teachers' Pension Plan

(i) General

The Plan is a contributory defined benefit pension plan covering teachers employed by school boards or the Province of Newfoundland and Labrador and full-time employees of the Newfoundland and Labrador Teachers' Association.

The Plan is comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act* (Canada), and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act* (Canada) maximum benefit limits. These financial statements include only amounts that pertain to the Registered Plan. Amounts that pertain to the Supplementary Plan are included within the accounts of the Consolidated Revenue Fund.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Authority and description (cont.)

(b) Teachers' Pension Plan (cont.)

(ii) Employee contributions

Employee contributions are equal to 9.35% of salary, up to the maximum allowed under the *Income Tax Act* (Canada). Amounts in excess of the maximum allowed are paid to the Supplementary Plan.

(iii) Accrued service pensions

A service pension is available from the Registered Plan based on $1/45^{\text{th}}$ of the member's best five years average salary times years of pensionable service prior to January 1, 1991, plus 2% of the member's best five years average salary times years of pensionable service after January 1, 1991. When a member who retired after August 31, 1998 reaches age 65, this pension is reduced by 0.6% of the member's best five years average salary up to average YMPE times years of pensionable service after April 1, 1967. The calculated amount shall not exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada).

Where the calculated amount does exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada), a vested member who is no longer an employee can receive a pension from the Supplementary Plan. The total pension received from both the Registered Plan and the Supplementary Plan equals the amount calculated based on $1/45^{\text{th}}$ of the member's best five years average salary times years of pensionable service prior to January 1, 1991, plus 2% of the member's best five years average salary times years of pensionable service after January 1, 1991.

(iv) Disability pensions

A disability pension equal to the accrued service pension is available on permanent incapacity at any age with a minimum of five years pensionable service.

(v) Survivor pensions

A survivor pension of 60% of the member's accrued service pension is paid to the surviving principal beneficiary (and on the surviving principal beneficiary's death, to dependent children) following the death of a pensioner, a deferred pensioner or an employee with at least five years pensionable service.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Authority and description (cont.)

(b) Teachers' Pension Plan (cont.)

(vi) Pre-retirement death benefits

Where an employee with at least five years pensionable service dies before receiving a pension and a survivor benefit is payable, the surviving principal beneficiary may elect to receive either the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the employee's pension entitlement.

Where an employee with at least five years pensionable service dies before receiving a pension and there is no surviving principal beneficiary the commuted value of the employee's pension entitlement is paid to the employee's estate.

(vii) Termination benefits

On termination of employment, a teacher may elect to receive a refund of the teacher's own contributions with interest or, if the teacher has at least five years pensionable service, may elect to receive a deferred pension or commuted value.

(viii) Indexing

Effective September 1, 2002 and each September 1 thereafter the amount of a pension or survivor benefit paid to an individual who has reached the age of 65 will be adjusted by 60% of the Consumer Price Index for Canada for the previous calendar year as published by Statistics Canada, to a maximum of 1.2% of the annual pension or survivor benefit. This provision only applies to a pension or survivor benefit where the teacher to whom that pension or benefit relates retires after August 31, 1998.

(c) Uniformed Services Pension Plan

(i) General

The Plan is a contributory defined benefit pension plan covering members of the Royal Newfoundland Constabulary, warders at various Provincial correctional institutions, and some members of the St. John's Regional Fire Department.

The Plan is comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act* (Canada), and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act* (Canada) maximum benefit limits. These financial statements include only amounts that pertain to the Registered Plan. Amounts that pertain to the Supplementary Plan are included within the accounts of the Consolidated Revenue Fund.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Authority and description (cont.)

(c) Uniformed Services Pension Plan (cont.)

(ii) Employee contributions

Employee contributions are equal to 9.95% of the CPP basic exemption, plus 8.15% of the employee's salary between the CPP basic exemption and the YMPE under the CPP, plus 9.95% of the employee's salary in excess of the YMPE.

(iii) Accrued service pensions

A service pension is available based on the number of years of pensionable service times 2% of the member's best three years average salary. When a retired member reaches age 65, this pension is reduced by 0.6% of the member's best three years average salary up to average YMPE times years of pensionable service after April 1, 1967.

Employees may retire with an unreduced pension with 25 years of pensionable service.

Vested employees who have reached age 55 may retire with an actuarially reduced pension.

(iv) Disability pensions

A disability pension equal to the accrued service pension is available on permanent incapacity at any age with a minimum of five years pensionable service.

(v) Survivor pensions

A survivor pension of 60% of the member's accrued service pension is paid to the surviving principal beneficiary (and on the surviving principal beneficiary's death, to dependent children) following the death of a pensioner, a deferred pensioner or an employee with at least five years pensionable service. For grandfathered members, who died before January 1, 1997, the survivor pension is 55% of the member's accrued service pension.

(vi) Pre-retirement death benefits

Where an employee with at least five years pensionable service dies before receiving a pension and a survivor benefit is payable, the surviving principal beneficiary may elect to receive either the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the employee's pension entitlement.

Where an employee with at least five years pensionable service dies before receiving a pension and there is no surviving principal beneficiary the commuted value of the employee's pension entitlement is paid to the employee's estate.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Authority and description (cont.)

(c) Uniformed Services Pension Plan (cont.)

(vii) Termination benefits

On termination of employment, an employee may elect to receive a refund of the employee's own contributions with interest or, if the employee has at least five years pensionable service, may elect to receive a deferred pension or the commuted value.

(d) Members of the House of Assembly Pension Plan

(i) General

The Plan is a contributory defined benefit pension plan for Members of the House of Assembly (MHAs). Members may elect not to participate in the Plan for their first term.

The Plan is comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act* (Canada), and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act* (Canada) maximum benefit limits. These financial statements include only amounts that pertain to the Registered Plan. Amounts that pertain to the Supplementary Plan are included within the accounts of the Consolidated Revenue Fund.

(ii) Member contributions

Members are required to pay 9% of their pensionable salary to the Registered Plan, up to the maximum allowed under the *Income Tax Act* (Canada). Amounts in excess of the maximum allowed are paid to the Supplementary Plan. Member contributions cease after seventeen years of service if elected before or during the 43rd General Assembly and after twenty years of service if elected since that time.

On December 22, 2009, the Province amended the *Members of the House of Assembly Retiring Allowances Act*. This amendment provided that for Members elected prior to January 1, 2010, their pensionable salary effective July 1, 2007 would be equal to 81.2% of the salary authorized to be paid to an MHA under section 11(1) of the *House of Assembly Accountability, Integrity and Administration Act*. The pensionable salary for Members elected after December 31, 2009 would be the salary authorized under subsection 11(1) of the *House of Assembly Accountability, Integrity and Administration Act*.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Authority and description (cont.)

(d) Members of the House of Assembly Pension Plan (cont.)

(iii) Calculation of allowances on retirement

A vested Member who is no longer an MHA or a minister may, on application and subject to eligibility criteria, receive an allowance as follows:

For Members elected for the first time before or during the 43rd General Assembly, the percentage is calculated at 5% for each of the first ten years, 4% for each of the next five years, 2.5% for each of the next two years and 2% for each year of other service. Ministers receive an additional allowance calculated similarly and based on service and salary as a Minister (excluding Member's salary).

For Members elected for the first time after the 43rd General Assembly and prior to January 1, 2010, the percentage is 5% for each of the first ten years, 2.5% for each of the next ten years, and 2% for each year of other service.

On December 22, 2009, the Province amended the *Members of the House of Assembly Retiring Allowances Act*. These amendments provided for a new benefit accrual rate and new eligibility criteria for Members first elected to the House of Assembly after December 31, 2009. The annual accrual benefit rate for the new Member would be 3.5% to a maximum of 20 years service. The new Member would have to reach age 55 before being eligible for an unreduced pension. A new Member who retires between the ages of 50 and 54 would be eligible for a pension that would be reduced by 6% for each year that the Member is under the age of 55.

These allowances are paid as follows:

Under the Registered Plan the allowance is the product of 2% of MHA's and minister's salary for the best three calendar years. When a Member reaches age 65, the amount of the registered allowance is reduced by 0.6% of the Member's average YMPE times years of service between January 1, 1998 and December 31, 2004. The amount of the registered allowance shall not exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada).

Where the calculated allowance does exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada), a vested Member who is no longer an MHA or a minister can receive an allowance from the Supplementary Plan. The Member's supplementary allowance is reduced by the amount of his or her registered allowance. The annual allowance is based on a percentage of the average of the Member's pensionable salary for the best three calendar years. When a Member reaches age 65, the amount of the supplementary allowance is reduced by 0.6% of the Member's average YMPE times years of service after April 1, 1967 (service between January 1, 1998 and December 31, 2004 excluded).

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Authority and description (cont.)

(d) Members of the House of Assembly Pension Plan (cont.)

(iv) Disability allowance

A disability allowance equal to the amount of the registered allowance the Member would have been eligible to receive at 65 years of age is available if a Member becomes permanently disabled. Additional supplementary benefits are also available on disability.

(v) Survivor benefits

A survivor benefit equal to 60% of the Member's registered allowance that he or she would have received had he or she reached age 65 on the date of death is paid to the surviving principal beneficiary.

(vi) Pre-retirement death benefits

If a Member dies before receiving an allowance and a survivor benefit is payable, the surviving principal beneficiary may elect to receive the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the Member's entitlement. Where a survivor pension is not payable, the commuted value of the pension entitlement is paid to the deceased plan Member's estate.

(vii) Termination benefits

A Member who is no longer an MHA or a minister and who has been elected to only one general assembly or who has less than five years of service may elect to receive a refund of his or her contributions with interest.

A vested Member who is no longer an MHA or a minister may, subject to eligibility criteria, elect to transfer the commuted value of his or her entitlement under the Registered Plan to another approved retirement arrangement, or receive a deferred registered allowance. Also, the Member may receive a lump sum payment of his or her entitlement under the Supplementary Plan, or receive a deferred supplementary allowance.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS

December 31, 2014

Authority and description (cont.)

(e) Provincial Court Judges' Pension Plan

(i) General

The Plan is a contributory defined benefit pension plan covering all Provincial Court judges appointed on or after April 1, 2002, and to a judge who elected on or before April 1, 2002 to join the Plan.

The Plan is comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act* (Canada), and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act* (Canada) maximum benefit limits. These financial statements include only amounts that pertain to the Registered Plan. Amounts that pertain to the Supplementary Plan are included within the accounts of the Consolidated Revenue Fund.

(ii) Judges' contributions

Judges are required to pay 9% of their pensionable salary to the Registered Plan, up to the maximum allowed under the *Income Tax Act* (Canada). Amounts in excess of the maximum allowed are paid to the Supplementary Plan. Judges' contributions cease when they have accrued and paid contributions for twenty years of pensionable service.

(iii) Calculation of allowances on retirement

The annual amount of the allowance paid to a vested judge on normal retirement is the product of 3.33% of his or her annual salary immediately prior to ceasing to be a judge, multiplied by the number of years of service as a judge, to a maximum of 20 years.

The annual amount of the allowance paid from the Registered Plan to a vested judge on normal retirement is the product of 2% of his or her annual salary immediately prior to ceasing to be a judge, multiplied by the number of years of service as a judge, to a maximum of 20 years. The amount shall not exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada). The remaining allowance is paid from the Supplementary Plan.

Normal retirement date is the first day of the month following the judge's 65th birthday.

(iv) Survivor benefits

A survivor benefit equal to 60% of the pensioner's or judge's registered allowance that he or she would have received had he or she reached age 65 on the date of death is paid to the surviving principal beneficiary.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

Authority and description (cont.)

(e) Provincial Court Judges' Pension Plan (cont.)

(v) Pre-retirement death benefits

If a judge dies before receiving an allowance and a survivor benefit is payable, the surviving principal beneficiary may elect to receive the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the judge's entitlement. Where a survivor pension is not payable, the commuted value of the entitlement is paid to the deceased judge's estate.

(vi) Termination benefits

A judge who has stopped serving as a judge and who has less than two years of judge's service may elect to receive a refund of his or her contributions with interest.

A judge who has at least two years of judge's service may, subject to eligibility criteria, elect to transfer the commuted value of his or her entitlement under the Registered Plan to another approved retirement arrangement, receive a lump sum payment of his or her entitlement under the Supplementary Plan, or receive a deferred allowance.

(vii) Indexing

Effective October 1, 2002 and each October 1 thereafter, the amount of the allowance or survivor benefit paid to an individual who has reached the age of 65 shall be adjusted by 60% of the Consumer Price Index for Canada for the previous calendar year as published by Statistics Canada, to a maximum of 1.2% of the annual allowance or survivor benefit.

1. Summary of significant accounting policies

Outlined below are the significant accounting policies followed.

(a) Basis of Presentation

The Fund's management prepares financial statements in accordance with the requirements of the Chartered Professional Accountants Canada (CPA Canada) Handbook Section 4600 - Pension Plans. This standard is the basis for Canadian accounting standards for pension plans. The recognition and measurement of the Fund's assets and liabilities are consistent with the requirement of CPA Canada Handbook Section 4600.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

1. Summary of significant accounting policies (cont.)

(a) Basis of Presentation (cont.)

CPA Canada Section 4600 requires that in selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, a pension plan shall comply on a consistent basis with either International Financial Reporting Standards in Part I of the CPA Canada Handbook, or Accounting Standards for Private Enterprises in Part II of the CPA Canada Handbook, to the extent that those standards do not conflict with the requirements of Section 4600. The Fund has chosen to comply, on a consistent basis, with the Accounting Standards for Private Enterprises in Part II of the CPA Canada Handbook, hereafter referred to as "ASPEs".

(b) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Fund's functional currency.

(c) Measurement uncertainty

The preparation of the financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and items reported on the statement of financial position and the statement of changes in net assets available for benefits at the date of the financial statements. The major estimates used by management in preparing the financial statements relate to the valuations and classification of investments, as well as assumptions used in the calculation of pension obligations. Actual results could differ from these estimates, and the impact of any such differences will be recorded in future periods.

(d) Investments

The Fund's investments consist of the following major assets classes: public equities, interest bearing investments such as treasury bills, bonds, mortgages and real estate.

Investments are classified as held-for-trading. All investment transactions are recorded at the point upon which the risks and rewards of ownership are transferred. Purchases and sales of publicly traded investments are recorded as of the trade date and are stated at fair value as at year-end. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Short-term notes and deposits are valued at book value which approximates market value.

Bonds and debentures are valued at the mean or the average price at the valuation date.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

1. Summary of significant accounting policies (cont.)

(d) Investments (cont.)

Publicly traded equities are valued at the last board lot trade for a given stock. In instances where the quoted stock has not been traded on the valuation date, the price of the last board lot traded price is quoted.

Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represent the Fund's proportionate share of underlying net assets at fair values determined using closing market prices.

The Fund invests in real estate through its 100% owned subsidiary, Newvest Realty Corporation. The fair value of this investment is shown as a real estate equity investment.

(e) Investment income

Investment income is allocated proportionately to the pension plans under the Fund based on the asset value held in the pension plan account.

Investment income (loss) is reflected in investment activities and includes the following:

- (i) Dividend income which is recognized as of the date of record for North American equities, and as of the date of receipt for non-North American equities.
- (ii) Bank interest and interest on bonds and debentures, short-term notes and deposits.
- (iii) Real estate income which includes dividends received and unrealized gains and losses.
- (iv) Foreign exchange gains and losses.
- (v) Gains and losses that have been realized on disposal of investments.
- (vi) Unrealized gains and losses which reflect the change in fair value of investments held at the end of the year.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

1. Summary of significant accounting policies (cont.)

(f) Accrued pension benefits and accrued benefits obligation

The value of accrued pension benefits is based on a projected accrued benefits method actuarial valuation prepared triennially by an independent firm of actuaries. This accrued benefits obligation is measured in accordance with accepted actuarial methods, using actuarial assumptions and methods adopted by the Province for the purpose of establishing the long-term funding requirements. The actuarial valuation included in the financial statements is consistent with the valuation for funding purposes. In between valuations, the value of accrued benefits is extrapolated annually from these valuations.

(g) Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Canadian dollars at the exchange rate at that date.

Foreign currency differences arising on retranslation are recognized in the statement of changes in net assets available for benefits as a change in market value of the investment.

(h) Surplus/deficit

For financial statement reporting, the surplus/deficit of the Plans are based on the difference between the fair value of the Plans' net assets available for benefits and the Plans' accrued benefits obligation. For funding purposes, the Plans' surplus/deficit is based on the difference between the Plans' value of net assets and the actuarial value of the Plans' accrued benefits obligation.

(i) Contributions

Contributions from employers and members due to the Plans at the end of the year are recorded on an accrual basis. Service purchases that include, but are not limited to leaves of absence, periods of reduced accrual and transfer from other pension plans are recorded and service is credited when the signed contract to purchase is received.

(j) Benefits

Benefit payments to retired members are recorded as they are due and paid, twice monthly. Commuted value payments and transfers to other pension plans are recorded when paid. Accrued benefits from members are recorded as part of the accrued pension obligation.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

1. Summary of significant accounting policies (cont.)

(k) Administrative Expenses

Administrative expenses are incurred for direct pension administration and external investment management and are recorded on an accrual basis. Direct pension administration expenses represent expenses to provide direct services to plan members and employers and include actuarial consulting, disability pension adjudication and audit fees. External investment management expenses represent payments to the investment managers. These are allocated between the Plans on a pro rata basis, based on the balance of the assets in the individual plans as a percentage of the total value of the combined plans.

(l) Cash

Cash includes cash on hand and balances with banks.

2. Investments

(a) Investment portfolio

The fair value of investments relative to the cost is summarized in the following table:

	As at December 31, 2014			As at December 31, 2013		
	Assets (000's)	%	Cost (000's)	Assets (000's)	%	Cost (000's)
Money Market	\$ 103,396	1.2	\$ 103,387	\$ 143,530	1.8	\$ 143,528
Fixed Income						
Canadian	1,545,209	18.4	1,496,478	1,452,266	18.6	1,457,573
US	13,327	0.2	11,459	5,264	0.1	5,325
Equities						
Canadian	2,834,515	33.8	2,309,613	2,692,641	34.5	2,143,031
US	2,141,479	25.5	1,633,587	1,829,876	23.4	1,385,510
Global	1,499,579	17.9	1,292,934	1,453,813	18.6	1,181,211
Real estate	249,842	3.0	184,878	234,922	3.0	169,438
Total	\$ 8,387,347	100	\$ 7,032,336	\$ 7,812,312	100	\$ 6,485,616

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

2. Investments (cont.)

(b) Fair value measurement

Financial instruments are classified according to the following fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- **Level 1:** Fair value is based on inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 primarily includes publicly listed investments.
- **Level 2:** Fair value is based on valuation methods that make use of inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active. Level 2 primarily includes fixed income securities not actively traded on a public exchange, public equities not traded in an active market and investments in pooled funds.
- **Level 3:** Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level 3 primarily includes private market investments such as real estate, valued based on discounted future cash flow models which reflect assumptions that a market participant would use when valuing such an asset or liability.

Investments based on the valuation level within the fair value hierarchy are as follows:

As at December 31, 2014	Level 1	Level 2	Level 3	Total
	(000's)	(000's)	(000's)	(000's)
Money Market				
Canadian	\$ -	\$ 103,305	\$ -	\$ 103,305
US	-	91	-	91
Fixed Income				
Canadian	-	1,545,209	-	1,545,209
US	-	13,327	-	13,327
Equities				
Canadian	2,422,253	412,262	-	2,834,515
US	2,140,459	-	1,020	2,141,479
Global	1,499,191	-	388	1,499,579
Real estate	-	-	249,842	249,842
Total	\$ 6,061,903	\$ 2,074,194	\$ 251,250	\$ 8,387,347

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

2. Investments (cont.)

(b) Fair value measurement (cont.)

As at December 31, 2013	Level 1	Level 2	Level 3	Total
	(000's)	(000's)	(000's)	(000's)
Money Market				
Canadian	\$ -	\$ 143,396	\$ -	\$ 143,396
US	-	134	-	134
Fixed Income				
Canadian	-	1,452,266	-	1,452,266
US	-	5,264	-	5,264
Equities				
Canadian	2,623,990	68,651	-	2,692,641
US	1,829,876	-	-	1,829,876
Global	1,453,813	-	-	1,453,813
Real estate	-	-	234,922	234,922
Total	\$ 5,907,679	\$ 1,669,711	\$ 234,922	\$ 7,812,312

During the year, there have been no transfers between Level 1, Level 2, and Level 3.

The following table shows the changes in the fair value measurement in Level 3 of the fair value hierarchy:

	(000's)
Fair value, December 31, 2013	\$ 234,922
Acquisitions	23,769
Dispositions	(4,706)
Realized gain/loss	(2,214)
Net change in unrealized gain/loss	(521)
Fair value, December 31, 2014	\$ 251,250

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

2. Investments (cont.)

(c) Securities lending

The Fund participates in a securities lending program whereby it lends securities in order to enhance portfolio returns. The securities lending program requires collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending programs. In the absence of an event of default, the same securities or equivalent securities must be returned to the counterparty at the end of the contract.

The fair values of the allocated securities and collateral associated with the securities lending program as at December 31 are as follows:

	2014	2013
	(000's)	(000's)
Securities lent	\$ 2,319,407	\$ 1,539,181
Securities contractually receivable	\$ 2,444,354	\$ 1,642,086

3. Investment income

(a) Investment income for the year ended December 31 is as follows:

	2014	2013
	(000's)	(000's)
Interest income	\$ 57,521	\$ 46,088
Dividend income	181,129	150,068
Security lending income	3,997	2,829
Commission recapture income	370	277
	243,017	199,262
Net realized gains	654,400	376,618
Net unrealized gains	28,315	875,369
Investment income	\$ 925,732	\$1,451,249

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

3. Investment income (cont.)

(b) Investment income by asset mix, for the year ended December 31 is as follows:

	Investment income	Gain on sale of investments	Current period change in market value of investments	2014 Total	2013 Total
	(000's)	(000's)	(000's)	(000's)	(000's)
Canadian equities	\$ 68,127	\$ 263,172	\$ (24,709)	\$ 306,590	\$ 501,444
Foreign equities	103,472	378,181	(2,430)	479,223	936,629
Bonds and debentures	54,164	13,045	55,966	123,175	(12,413)
Short term notes & deposits	7,724	2	8	7,734	4,009
Real estate	9,530	-	(520)	9,010	21,580
Total	\$ 243,017	\$ 654,400	\$ 28,315	\$ 925,732	\$1,451,249

(c) Investment returns

The Fund's investment returns gross of fees as at December 31 are shown by asset class in the table below.

	2014	2013
	(%)	(%)
Canadian equity	11.75	22.67
Global equity	14.16	33.94
Fixed income	8.48	(0.80)
Real estate	3.87	9.36
Total portfolio return	12.00	22.36

The Fund's net return after all investment management costs for the year ended December 31, 2014 was 11.76% (2013 - 22.13%).

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

4. Investment risk management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The use of financial instruments exposes the Fund to credit and liquidity risks, interest rate volatility, and market risks including foreign exchange and market price fluctuations and volatility. The Fund has policies and operating procedures that establish an asset mix among equity, fixed income and real estate investment, require diversification of investments within categories, and set limits on the size of exposure to individual investment and counterparties. Trustee oversight, procedures and compliance functions are incorporated into Fund processes to achieve consistent controls and mitigate operational risk.

(a) Interest rate risk

Interest rate risk refers to the fact that the Fund's financial position will change with market interest rate changes, as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Fund's assets and cash flows related to the Fund's liabilities. The fixed income portfolio has guidelines on concentration, duration and distribution which are designed to partially mitigate the risks of interest rate volatility.

The fair value of the Fund is affected by short term changes in nominal interest rates. Pension liabilities are exposed to the long term expectation of rate of return on the investments, as well as expectations of inflation and salary escalation.

The term to maturity classifications of interest bearing investments, based upon the contractual maturity of these securities, as at December 31 are as follows:

	2014	2013
	(%)	(%)
Within 1 year	13.2	13.6
Short (1 - 5 years)	29.0	34.3
Medium (5 - 10 years)	23.8	23.9
<u>Long (10+ years)</u>	<u>34.0</u>	<u>28.2</u>
Total	100.0	100.0

Assuming a parallel change in the long and short-term yields, a 1% increase in interest rates would have the effect of decreasing the fair value of the Fund's fixed income investments by approximately \$105.6 million or 6.75% (2013 - \$86.1 million or 5.89%).

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

4. Investment risk management (cont.)

(b) Market price risk

Market price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. All changes in market conditions will directly result in an increase (decrease) in net assets available for benefits. Market price risk is managed by the Fund through the construction of a diversified portfolio of instruments traded on various markets and across various industries. If equity market indices (S&P/TSX and MSCI ACWI and their sectors) declined by 10% and all other variables are held constant, the potential loss to the Fund would be approximately \$647.6 million, or 7.72% (2013 - \$597.6 million or 7.65%).

(c) Credit risk

Credit risk is the risk that the issuer of a debt security or counterparty to a contract is unable to fulfill its financial obligation and causes the other party to incur a loss.

Fixed income portfolio

Credit risk in the fixed income portfolio is monitored by evaluating the Fund's exposure in two ways: by sector (government versus corporate) and by credit quality.

The Fund is exposed to credit risk from the following interest earning investments, classified by sector as at December 31:

	2014	2013
	(%)	(%)
Federal government	14.4	21.4
Provincial government	25.6	20.3
Municipal government	1.2	1.4
Corporate	55.6	52.3
Other	3.2	4.6
Total	100.0	100.0

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

4. Investment risk management (cont.)

(c) Credit risk (cont.)

The Fund's concentration risk by credit rating as at December 31 is as follows:

	2014	2013
	(%)	(%)
AAA to A-	69.3	67.1
BBB to BBB-	12.0	13.6
BB+ and below	0.4	0.8
<u>Not rated</u>	<u>18.3</u>	<u>18.5</u>
Total	100.0	100.0

Real estate

Real estate investment managers manage risk through monthly monitoring of tenant performance and arrears. Tenant exposure is managed by limiting concentration to a specific economic sector and geographic area. Transactions that involve assuming a new tenant exposure are vetted by an appropriate due diligence and approval process.

Securities lending

The Fund lends securities for a fee to approved borrowers. High quality collateral is provided by borrowers to alleviate the credit risk. Regular reporting of the securities lending program ensure that its various components are continuously being monitored.

(d) Foreign currency risk

Foreign currency exposure arises through holdings of securities and units in pooled funds in non-Canadian assets. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. The Fund does not take an active approach such as currency hedging to managing this risk, but rather the currency risk is managed through the diversified nature of the overall portfolio. In addition, the investment managers of the Fund are given flexibility through their mandate to periodically hedge currency for opportunistic or defensive purposes.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

4. Investment risk management (cont.)

(d) Foreign currency risk (cont.)

The Fund's unhedged currency exposure from net investment assets as at December 31 is summarized in the following table:

	2014	2013
	(%)	(%)
Canadian dollar	56.4	57.8
US dollar	25.7	23.6
Euro	4.6	4.2
British pound	3.4	3.9
Other Asia/Pacific currencies	3.7	3.7
Other European currencies	3.0	3.2
Japanese yen	2.2	2.7
Other currencies *	1.0	0.9
Total	100.0	100.0

* Other currencies include Africa, Middle East and Latin America

A 10% increase in the value of the Canadian dollar in relation to all other foreign currencies, with all other variables held constant, would result in an unrealized investment loss of \$363.6 million, or 4.32% (2013 - \$331.2 million, or 4.22%).

(e) Liquidity risk

Liquidity risk corresponds to the Fund's ability to meet its financial obligations as they come due with sufficient and readily available cash resources. Cash obligations are fulfilled from contributions to the Fund, cash income of the Fund and planned dispositions of Fund assets as required. Cash requirements of the Fund are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations. In general, the Fund's investments in cash and cash equivalents, debt and public equities are expected to be highly liquid and are invested in securities that are actively traded.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

5. Capital management

The capital of the Fund is defined as the net assets available for benefits. The Fund was established as a vehicle to invest employee and employer pension plan contributions in the capital markets with a long-term goal to achieve investment returns. The main objective of the Fund is to secure promised pension obligations as they come due, and the secondary objective is to minimize employer long-term contributions and manage the variability of employer contributions.

The Fund is sponsored by the Government of Newfoundland and Labrador, represented by the Minister of Finance who is Trustee of the Fund. The Trustee has appointed the Pension Investment Committee (PIC) to review, monitor, administer and supervise all investment activities of the Fund.

Portfolio Management

The Fund utilizes external investment management firms to invest the assets of the Fund. Each investment manager is selected through a disciplined process to ensure a good fit with the investment structure and objectives of the Fund. As at December 31, 2014, the external investment fund management group was comprised of the following firms:

Baillie Gifford Overseas Limited
Bentall Kennedy
Beutel, Goodman & Company Ltd.
Blackrock Asset Management Canada Limited
Connor, Clark & Lunn Investment Management Ltd.
Global Thematic Partners, LLP
Phillips, Hager & North Investment Management Ltd.
(Pyramis) Fidelity Investments Canada Ltd.
QV Investors Inc.
Sprucegrove Investment Management Ltd.
T. Rowe Price
Fiera Capital Corporation
Wellington Management Company, LLP

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

5. Capital management (cont.)

In addition, CIBC Mellon Global Securities Services provides all custodial and administrative services for the Fund, and Russell Investments provides investment counseling services to the Fund.

The long-term asset mix policy of the Fund is as follows:

Canadian equity	35%
Global equities	40%
Fixed income	20%
Real estate	5%

The asset mix policy was adopted after evaluating the potential impact of alternative policies on benefit security and employer contributions. Factors evaluated included the Plans' going-concern and solvency funded ratios, demographics, cash flow requirements, actuarial assumptions, benefit levels, and liquidity requirements. The expected real return of the Fund's investment policy is 4.25% annualized over the long term.

6. Administrative costs

Administrative costs are direct costs of the Department of Finance, Pensions Division and are allocated to the various pension plans based on the previous month's equity balance related to the total Fund. Any direct costs related to a specific plan are charged accordingly. Administrative costs for the year ended December 31 were comprised as follows:

	2014	2013
	(000's)	(000's)
Investment management fees	\$ 20,186	\$ 17,928
Custodian fees	1,152	1,017
Investment consulting fees	225	199
Actuarial consulting fees	121	167
	21,684	19,311
Salaries and benefits	2,662	2,592
Computer charges	204	154
Other expenses	375	306
Medical and professional fees	139	173
	\$ 25,064	\$ 22,536

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

7. Accrued benefits obligation

Actuarial assumptions

The actuarial assumptions used in determining the value of the accrued benefits obligation of \$13.0 billion reflect management's best estimate of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, salary escalation and the inflation rate. The discount rate is based on the target asset mix and expected real returns for each asset class. The inflation rate is derived from the Bank of Canada's long term investment range. The salary escalation rate incorporates the inflation rate assumption and long term expectation of growth in real wages. A summary of the primary economic assumptions as at December 31 is as follows:

	PSPP		TPP		USPP		MHAPP		PCJPP	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Discount rate	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.50%	6.50%
Salary escalation rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.25%	3.25%	3.50%	3.50%
Inflation rate	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%

8. Actuarial valuations

Triennial actuarial valuations are performed by the actuarial consulting firm of Morneau Shepell. Relevant reporting dates for the various plans are summarized below.

<u>Pension Plan</u>	<u>Effective date of valuation used to determine pension obligation</u>	<u>Date of next required valuation</u>
Public Service	December 31, 2012	December 31, 2015
Teachers'	August 31, 2012	August 31, 2015
Uniformed Services	December 31, 2011	December 31, 2014
Members of the House of Assembly	December 31, 2012	December 31, 2015
Provincial Court Judges'	December 31, 2013	December 31, 2016

9. Funding policy

In accordance with legislation, the Province's funding requirement is to match employee contributions for current service. Matching of contributions may also occur for certain other types of prior service, which may be purchased under contract.

Also, the Province is required to pay into the Fund amounts required to cover any actual plan deficiencies which may occur. A plan deficiency occurs when pension payments, refunds of contributions and administrative costs exceed a plan's fund balance.

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

9. Funding policy (cont.)

In June 2012, the Province approved a series of special monthly payments to the Fund for 2012-13 totaling \$294 million to improve the funded status of the Public Service Pension Plan, Teachers' Pension Plan, and Uniformed Services Pension Plan. The amount of the special payments was equal to one third of the surplus for the 2011-12 fiscal year for the Province and would be allocated to the three plans based on the ratio of the accrued pension obligations by plan to the total pension obligations of the three plans as estimated at December 31, 2011. In 2012, the special monthly payments totaled \$90 million. In 2013, the balance of \$204 million was paid to the Fund.

10. Teachers' Indexing Fund

The total fund balance relating to the Teachers' Pension Plan is comprised of the regular fund balance and the fund balance of the Teachers' Indexing Fund. In accordance with the most recent Teachers' Collective Agreement, contributions required to fund the indexing benefit introduced as of September 1, 2002 shall be deposited to a separate account. As at December 31, 2014 the increase and decrease in the net assets of the Fund related to the Teachers' Indexing Fund and the closing balance, along with the closing balance of the Fund related to the Teachers' Regular Fund, are comprised as follows:

	2014	2013
	(000's)	(000's)
Teachers' Indexing Fund:		
Increases in net assets		
Contributions	\$ 7,767	\$ 7,814
Investment income	14,223	20,209
	21,990	28,023
Decreases in net assets		
Pensions	(200)	(176)
Administrative costs	(383)	(312)
	(583)	(488)
Increase in net assets	21,407	27,535
Teachers' Indexing Fund balance, beginning of year	115,875	88,340
Teachers' Indexing Fund balance, end of year	137,282	115,875
Teachers' Regular Fund balance	2,827,568	2,712,448
Teachers' Pension Plan combined balance	\$ 2,964,850	\$ 2,828,323

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

11. Related party transactions

The following related party investments were held by the Fund as at December 31, 2014:

Description	Cost	Market Value
	(000's)	(000's)
Province of Newfoundland and Labrador Debentures		
- Series maturing October 17, 2033	\$ 5,803	\$ 7,293
Newfoundland and Labrador Hydro Debentures		
- Maturing July 14, 2017	240	194
	\$ 6,043	\$ 7,487

Also, as indicated in Note 1, the Fund manages its real estate investments through Newvest Realty Corporation, a wholly-owned subsidiary incorporated under the provisions of the *Canada Corporations Act*. It is also registered under the *Corporations Act* of the Province of Newfoundland and Labrador. All shares of the Corporation are held by the Fund.

12. Pensioner and refund payroll

All plans, with the exception of the Provincial Court Judges' Pension Plan, provide for disability pensions payable in the event the plan member is certified to be totally and permanently disabled. As well, should an employee die in service, there is provision for the payment of the employee's entitlement to the estate. The following tables summarize disability pension payments and the payments to employees' estates upon pre-retirement death.

Disability Pensions (\$000's)

Plan	Public Service	Teachers	Uniformed Services	Members of the House of Assembly	Provincial Court Judges
2014	24,263	9,852	919	-	-
2013	21,975	9,726	873	-	-

Payments on Pre-Retirement Death (\$000's)

Plan	Public Service	Teachers	Uniformed Services	Members of the House of Assembly	Provincial Court Judges
2014	8,394	1,770	*	-	-
2013	6,707	1,614	-	-	-

* Figure not shown to protect confidentiality

PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

13. Subsequent events

On December 11, 2014, the Province announced a Joint Sponsorship Agreement had been signed between the Government of Newfoundland and Labrador and the five major unions representing unionized members of the Public Service Pension Plan (PSPP). The purpose of this agreement was to establish the principles of the Joint Trusteeship as provided for in the September 2, 2014 PSPP Reform Agreement. On December 16, 2014, a bill entitled *An Act to Amend the Pensions Funding Act and the Public Service Pensions Act, 1991* was passed by the House of Assembly. The plan changes detailed in this legislation, including an increase in contribution rates and changes to eligibility requirements for pension benefits from the Public Service Pension Plan, came into effect on January 1, 2015.

On March 20, 2015, legislation was proclaimed by the Lieutenant-Governor in Council to establish the Public Service Pension Plan Fund (the PSPP Fund), and to create the trustee of the PSPP Fund, the PSPP Corporation (the Corporation), effective March 31, 2015. The assets of the Public Service Pension Plan of \$5.6 billion contained in the Newfoundland and Labrador Pooled Pension Fund under the *Pension Funding Act* was transferred to the PSPP Fund. The affairs of the PSPP Fund will be managed by the new trustee, the Corporation. A service level agreement was signed between the Corporation and Government to allow Government to continue to administer the Fund for an interim period of 12 months and the responsibility for the accrued benefit obligation of the PSPP Fund of approximately \$7.9 billion will now be shared between the two parties as per the Joint Sponsorship Agreement.

On April 9, 2015, the Province announced that it had reached an agreement in principle with the Newfoundland and Labrador Teachers Association (NLTA) that sustains the Teachers' Pension Plan (TPP) for the future and provides for a joint trusteeship. On June 23, 2015, legislation was proclaimed by the Lieutenant-Governor in Council to amend the *Teachers' Pension Act* to initiate pension reform measures, including an increase in contribution rates and the method of pension benefit and indexing calculation, effective September 1, 2015.

12.0 Contact Information

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